

GASB STATEMENT 34 IMPLEMENTATION ISSUES

Colleges and Universities Reporting

Addendum to Issue Paper

At the May 12 GASB 34 Task Force Meeting, there was discussion on the Colleges and Universities Reporting Issue Paper, particularly on the requirement in the Issue Paper that Colleges and Universities prepare a Statement of Activities. As mentioned in the Issue Paper, we recommended that Colleges and Universities report as business-type activities presenting only the financial statements required for enterprise funds. For their own separately issued financial statements, these entities would be required to prepare the Management's Discussion and Analysis (or MD&A); a Statement of Net Assets or Balance Sheet; a Statement of Revenues, Expenses, and Changes in Fund Net Assets; a Statement of Cash Flows (using the direct method); Notes to the financial statements; and Required Supplementary Information (RSI) other than MD&A, if applicable.

Using this approach, the state would present the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets for each College and University in the CAFR in combining component unit statements. (Cash flow statements are not required to be presented in the CAFR for discretely presented component units that issue their own financial statements, as long as a reference is made to the discretely presented component unit's separately issued financial statements). However, the Statement of Revenues, Expenses, and Changes in Fund Net Assets does not roll up into the required government-wide Statement of Activities, in which component units must be shown. To solve this problem, we recommended that Colleges and Universities be required to submit a Statement of Activities to facilitate the rolling up into the CAFR.

Two areas of concern were expressed by the Task Force: (1) that preparation of a Statement of Activities would require an allocation of revenues across expense functions which would not provide useful information to the colleges and universities and (2) that preparing a Statement of Activities would be too time-consuming for the colleges and universities and would thus waste college and university resources.

Regarding the first concern, as discrete component units of the state, colleges and universities must be rolled up into the government-wide statement of activities of the state. This **does not** mean that colleges and universities must split expenses and program revenues into functions for the state's CAFR. Only governmental activities of the primary government (which would be the state) would have to be split this way. Business-type activities of the primary government would be split by segment. Component units would be presented underneath the primary government, with major component units shown as individual line items, with all expenses as one number, and all program revenues split into three numbers – Charges for Services, Operating Grants

and Contributions, and Capital Grants and Contributions. Non-major component units would all be grouped together as one line under the major component units. General Revenues (along with contributions to permanent and term endowments, contributions to permanent fund principal, special and extraordinary items, and transfers) would be shown after the total net expenses of the state.

Regarding the concern that it would be too time-consuming for colleges and universities to prepare the Statement of Activities, as mentioned above, the expenses and program revenues would not have to be split into functions. As far as the CAFR is concerned, the problem with the Statement of Revenues, Expenses, and Changes in Net Assets under the BTA approach is that revenues are split into operating revenues and non-operating revenues, whereas in the required government-wide Statement of Activities the revenues must be split between program revenues and general revenues. Even if program revenues could be somehow determined from the Statement of Revenues, Expenses, and Changes in Net Assets, they wouldn't be clearly delineated between the three categories of program revenues. The Office of Statewide Reporting and Accounting Policy cannot pick out these categorizations of revenue for each of our colleges and universities from their Statements of Revenues, Expenses, and Changes in Net Assets. This would take more time, and waste more state resources, for OSRAP to try to determine than it would for the colleges and universities, who are familiar with the revenue figures, to do themselves.

We recommend that a simplified form of a Statement of Activities be required to be submitted by each college and university. This statement would not be part of each College and University's separately issued financial statements, but would be a required statement submitted to OSRAP to facilitate the completion of the State's CAFR. An example of a simplified Statement of Activities containing the information needed for CAFR preparation is attached.